The Fiscal Monitor

A Publication of the Department of Finance

Highlights

March 2007: budgetary deficit of $0.4 billion

There was a budgetary deficit of $0.4 billion in March 2007, compared to a deficit of $1.0 billion reported in March 2006. Budgetary revenues rose $0.5 billion, or 2.7 per cent, as strong growth in corporate income tax revenues was partially offset by declines in personal income tax revenues and goods and services tax (GST) revenues. The drop in personal income tax revenues was due to the accrual of the costs of measures announced in Budget 2007. The drop in GST revenues resulted from the July 1, 2006, rate reduction. Program expenses increased by $0.2 billion, or 0.9 per cent, reflecting an increase in departmental operating expenses. Public debt charges decreased by $0.2 billion.

April 2006 to March 2007: budgetary surplus of $9.7 billion, after deducting the cost of budget measures

For the April 2006 to March 2007 period, the budgetary surplus is estimated at $13.7 billion, up from the $12.0-billion surplus posted in the same period of 2005–06. Budgetary revenues rose $11.0 billion, or 5.0 per cent, reflecting strong growth in income tax revenues. Program expenses were up $9.2 billion, or 5.2 per cent, due to both higher transfers and other program expenses. Public debt charges were up $0.1 billion.

The April 2006 to March 2007 monthly results are not the final results for the year as a whole. They do not yet reflect $4.0 billion in spending for 2006–07 announced in Budget 2007, including the Clean Air and Climate Change Trust Fund and the Patient Wait Times Guarantee Trust. The cost of these measures will be reflected in the supplementary period. Deducting the cost of these measures brings the April 2006 to March 2007 surplus to $9.7 billion, $500 million higher than the $9.2-billion surplus projected in Budget 2007. However, the year-to-date results do not yet reflect the regular end-of-year accrual adjustments, which include final tax accrual adjustments as well as estimates of the cost of liabilities incurred during the fiscal year but for which no payment has yet been made.

A discussion of the March results and the budget forecast for 2006–07 is provided later in this document.

March 2007

There was a budgetary deficit of $0.4 billion in March 2007, compared to a deficit of $1.0 billion in March 2006.

Budgetary revenues increased by $0.5 billion, or 2.7 per cent, to $20.7 billion.

- Personal income tax revenues declined by $0.3 billion or 3.4 per cent. The decline was due to the accrual of $0.6 billion for the cost of Budget 2007 measures pertaining to the first three months of 2007, notably the Working Income Tax Benefit, the child tax credit and increases to the spousal and other amounts, all of which are retroactive to January 1, 2007.

- Corporate income tax revenues rose $0.6 billion, or 14.0 per cent. Corporate income tax revenues can be volatile on a monthly basis, as large refunds or settlement payments may be recorded in any given month. In addition, assessments or reassessments, which can relate to activity that took place in prior years, can influence results in a given month.
- Other income tax revenues—withholdings from non-residents—were down 2.0 per cent.
- Excise taxes and duties were down $0.3 billion. GST revenues declined by $0.2 billion, or 11.2 per cent, largely reflecting the 1-percentage-point reduction in the GST rate effective July 1, 2006. Customs import duties were down $41 million, sales and excise tax revenues declined by $44 million, and revenues from the Air Travellers Security Charge were $5 million lower.
- Employment insurance (EI) premium revenues increased by $0.1 billion, or 8.6 per cent, reflecting improvements in employment and wages and salaries, which more than offset the decline in the premium rate from $1.87 to $1.80 per $100 of insurable earnings, effective January 1, 2007.
- Other revenues, consisting of net profits of enterprise Crown corporations, revenues of consolidated Crown corporations, proceeds from the sales of goods and services, return on investments and foreign exchange revenues, increased by $0.4 billion. This revenue stream is volatile on a monthly basis, due in part to variations in the timing of large transactions from year to year.

Program expenses in March 2007 were $18.3 billion, up $0.2 billion, or 0.9 per cent, from March 2006, reflecting an increase in operating expenses of departments and agencies, partially offset by a decrease in transfer payments.

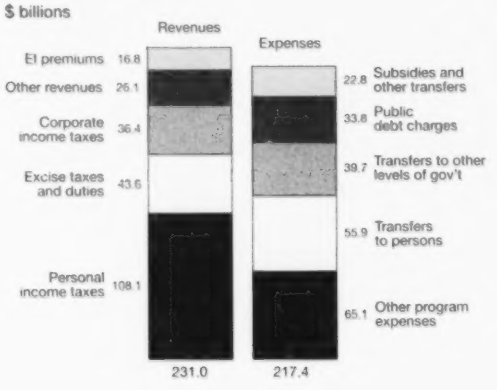
Transfer payments decreased by $48 million, or 0.4 per cent.

- Transfers to persons, consisting of elderly benefits, EI benefits and children's benefits, rose $0.3 billion, or 6.4 per cent. Elderly benefits increased 3.7 per cent. EI benefits were virtually unchanged. Children's benefits, which consist of the Canada Child Tax Benefit and the new Universal Child Care Benefit (UCCB), were up $0.2 billion, reflecting transfers under the UCCB.
- Transfers to other levels of government, consisting of transfers in support of the Canada Health Transfer and Canada Social Transfer, fiscal transfers, transfers to provinces on behalf of Canada's cities and communities, transfers for early learning and child care and Alternative Payments for Standing Programs, were down $0.3 billion, or 11.2 per cent. The decline reflects the low level of recoveries under Alternative Payments for Standing Programs recorded in March 2006.
- Subsidies and other transfers were unchanged.

Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including National Defence, and also reflect the ongoing assessment of the Government's liabilities. These expenses increased by $0.2 billion, or 3.3 per cent.

Public debt charges decreased by $0.2 billion, or 6.5 per cent.

Revenues and expenses
(April 2006 to March 2007)



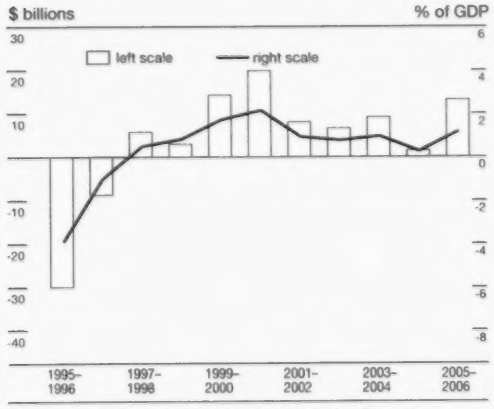
April 2006 to March 2007

For the April 2006 to March 2007 period, there was a budgetary surplus of $13.7 billion, up $1.7 billion from the $12.0-billion surplus reported for the same period of 2005–06.

Budgetary revenues rose $11.0 billion, or 5.0 percent, to $231.0 billion.

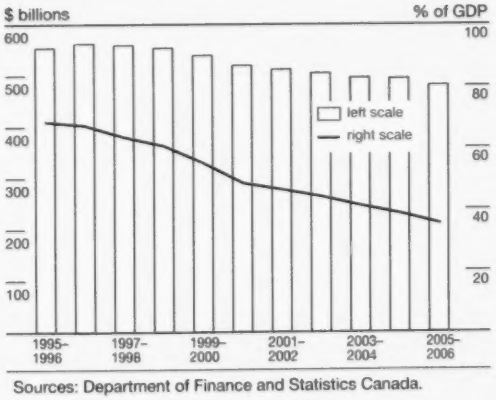
- Personal income tax revenues increased by $6.5 billion, or 6.4 per cent. This reflected solid growth in employment and wages and salaries combined with the progressive nature of the personal income tax system. These factors pushing up revenues were partially offset by tax relief measures announced in Budget 2007 and the October 31, 2006, Tax Fairness Plan.
- Corporate income tax revenues rose $4.6 billion, or 14.4 per cent, reflecting ongoing strength in profitability in 2005 and 2006.
- Other income tax revenues rose $0.8 billion, or 17.4 per cent, boosted by a one-time payment in November 2006 related to the disposition of Canadian assets by a non-resident firm.
- Excise taxes and duties declined by $2.6 billion, or 5.6 per cent, driven by a $3.3-billion drop in GST revenues, reflecting the impact of the July 1, 2006, GST rate reduction. This decline was partially offset by the one-time charge on duty deposit refunds under the Canada-United States Softwood Lumber Agreement, which raised sales and excise tax revenues by $0.5 billion in January and February. Sales and excise tax revenues were also boosted by the introduction of an export charge on softwood lumber exports to the U.S., effective October 12, 2006, consistent with the Agreement. Over the fiscal year as a whole, there will be no net budgetary impact from either the charge on duty deposit refunds or the export charge: revenues from the former are transferred to U.S. interests under the terms of the Agreement and revenues from the latter, net of the costs of administering the Agreement, will be transferred to provincial governments. In total, sales and excise tax revenues rose $0.5 billion, or 5.8 per cent. Customs import duties were up $0.2 billion, or 5.7 per cent, while revenues from the Air Travellers Security Charge were up $5 million.
- EI premium revenues increased by 0.4 per cent, reflecting improvements in employment and wages and salaries during the year, which more than offset the declines in the premium rate in 2006 and 2007, as well as the impact of the transfer to the province of Quebec of the responsibility for delivering maternity and parental benefits in that province along with the associated premiums, effective January 1, 2006.
- Other revenues rose $1.6 billion, or 8.6 per cent.

Budgetary balance



Sources: Department of Finance and Statistics Canada.

Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

Program expenses in the April 2006 to March 2007 period were $183.5 billion, up $9.2 billion, or 5.2 per cent, from the same period of 2005–06, due to both higher transfers and increased operating costs of departments and agencies, including National Defence. Public debt charges increased by $0.1 billion.

Transfer payments, which account for about two-thirds of total program expenses, increased by $5.9 billion, or 5.2 per cent.

- Transfers to persons grew by 5.8 per cent. Elderly benefits rose 4.6 per cent while EI benefits declined by 1.9 per cent. The year-to-date decline in EI benefits is mainly attributable to a decline in maternity and parental benefits, due to the transfer to the province of Quebec of the responsibility for delivering maternity and parental benefits in that province, effective January 1, 2006. Children's benefits increased by 21.7 per cent, reflecting transfers under the new UCCB program, which began in July 2006.
- Transfers to other levels of government were up $2.2 billion, or 5.9 per cent, largely due to the impact of the 2004 agreement on health care, as well as a $650-million transfer to provinces and territories in July 2006 for early learning and child care.
- Subsidies and other transfers increased by $0.6 billion, or 2.8 per cent, largely reflecting transfers to U.S. interests under the Canada-U.S. Softwood Lumber Agreement.

Other program expenses increased by $3.2 billion, or 5.2 per cent, due to an increase in the operating costs of departments and agencies.

Public debt charges were up 0.4 per cent, reflecting an increase in the average effective interest rate on the stock of interest-bearing debt.

Financial source of $10.6 billion for April 2006 to March 2007

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

With a budgetary surplus of $13.7 billion and a requirement of $3.1 billion from non-budgetary transactions, there was a net financial source of $10.6 billion in the April 2006 to March 2007 period, compared to a net financial source of $7.2 billion in the same period of 2005–06.

Net financing activities down $7.4 billion

The Government used this net financial source of $10.6 billion to increase its cash balances by $3.3 billion and reduce its market debt by $7.4 billion by the end of March 2007. The reduction in market debt was achieved largely through a reduction of marketable bonds and foreign currency borrowings. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of March stood at $21.2 billion.

Quarterly update of the fiscal outlook for 2006–07

The monthly results for the 12-month period ended March 2007 are generally consistent with the forecast presented in the 2007 budget, which was prepared based on monthly financial information through January 2007.

- Through the end of March 2007, revenues are somewhat lower than projected in the budget. Public debt charges and program expenses are also lower. However, program expenses to date do not reflect $4.0 billion in spending pertaining to 2006–07 announced in Budget 2007, including the Clean Air and Climate Change Trust Fund and the Patient Wait Times Guarantee Trust. The cost of these measures will be reflected in the supplementary period. Adjusting for the cost of these measures brings the April 2006 to March 2007 surplus to $9.7 billion. This is $500 million higher than the $9.2-billion surplus projected in Budget 2007.
- Significantly, the year-to-date results do not reflect a number of other important adjustments to revenues and expenses that will be made once further information becomes available.
- The monthly estimates of personal income taxes are based on source deductions with estimates of tax accruals. The final accruals will reflect assessments of tax returns for 2006 now underway at the Canada Revenue Agency. The final personal income tax outcome can vary significantly from the monthly estimates due to factors such as the magnitude of registered retirement savings plan contributions and variations in capital gains and losses reported at tax filing.
- Similarly, while the monthly results attempt to reflect the most up-to-date information on the Government's legal and environmental liabilities, provisions for guarantees, and allowances for valuation of loans, investments and advances, changes to estimated assets and liabilities are made up to the time that the financial statements are closed, normally in late August.

Financial results through March 2007 and the Budget 2007 projected outcome for 2006–07

	Budget 2007 Projected Outcome for 2006–07	April 2006 to March 2007	Difference
		($ billions)	
Revenues	232.3	231.0	-1.3
Expenses			
Program expenses	189.0	183.5	-5.5
Public debt charges	34.1	33.8	-0.3
Budgetary balance (deficit/surplus)		13.7	4.5
less Budget 2007 measures not in year-to-date results:		-4.0	
Budgetary balance including Budget 2007 measures (deficit/surplus)	9.2	9.7	0.5

Table 1
Summary statement of transactions

	March		April to March	
	2006	2007	2005–06	2006–07
	($ millions)			
Budgetary transactions				
Revenues	20,131	20,673	220,067	231,036
Expenses				
Program expenses	-18,137	-18,307	-174,370	-183,520
Public debt charges	-3,005	-2,811	-33,722	-33,841
Budgetary balance (deficit/surplus)	-1,011	-445	11,975	13,675
Non-budgetary transactions	2,238	2,652	-4,822	-3,062
Financial source/requirement	1,227	2,207	7,153	10,613
Net change in financing activities	12,652	10,084	-6,331	-7,361
Net change in cash balances	13,879	12,291	822	3,252
Cash balance at end of period			17,982	21,210

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2
Budgetary revenues

	March			April to March		
	2006	2007	Change	2005–06	2006–07	Change
	($ millions)		(%)	($ millions)		(%)
Tax revenues						
Income taxes						
Personal income tax	9,338	9,020	-3.4	101,632	108,093	6.4
Corporate income tax	4,043	4,607	14.0	31,842	36,434	14.4
Other income tax	350	343	-2.0	4,671	5,485	17.4
Total income tax	13,731	13,970	1.7	138,145	150,012	8.6
Excise taxes and duties						
Goods and services tax	1,694	1,505	-11.2	33,027	29,690	-10.1
Customs import duties	336	295	-12.2	3,409	3,605	5.7
Sales and excise taxes	764	720	-5.8	9,390	9,932	5.8
Air Travellers Security Charge	35	30	-14.3	351	356	1.4
Total excise taxes and duties	2,829	2,550	-9.9	46,177	43,583	-5.6
Total tax revenues	16,560	16,520	-0.2	184,322	193,595	5.0
Employment insurance premiums	1,657	1,800	8.6	16,748	16,807	0.4
Other revenues	1,914	2,353	22.9	18,997	20,634	8.6
Total budgetary revenues	20,131	20,673	2.7	220,067	231,036	5.0

Note: Totals may not add due to rounding.

Table 3

Budgetary expenses

	March			April to March		
	2006	2007	Change	2005–06	2006–07	Change
	($ millions)		(%)	($ millions)		(%)
Transfer payments						
Transfers to persons						
Elderly benefits	2,512	2,604	3.7	29,192	30,530	4.6
Employment insurance benefits	1,283	1,274	-0.7	14,352	14,083	-1.9
Children's benefits	809	1,022	26.3	9,278	11,287	21.7
Total	4,604	4,900	6.4	52,822	55,900	5.8
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,583	1,678	6.0	19,000	20,140	6.0
Canada Social Transfer	685	708	3.4	8,225	8,500	3.3
Total	2,268	2,386	5.2	27,225	28,640	5.2
Fiscal transfers	796	761	-4.4	12,437	13,010	4.6
Canada's cities and communities	5	11	120.0	580	590	1.7
Early learning and child care	0	0	n/a	0	650	n/a
Alternative Payments for Standing Programs	-10	-443	n/a	-2,732	-3,177	16.3
Total	3,059	2,715	-11.2	37,510	39,713	5.9
Subsidies and other transfers						
Agriculture and Agri-Food	620	596	-3.9	2,658	3,012	13.3
Foreign Affairs and International Trade	889	1,105	24.3	3,073	3,804	23.8
Health	287	252	-12.2	1,920	1,986	3.4
Human Resources and Social Development	160	224	40.0	1,908	1,733	-9.2
Indian Affairs and Northern Development	544	482	-11.4	4,807	4,728	-1.6
Industry	205	128	-37.6	1,983	1,987	0.2
Other	1,146	1,064	-7.2	5,850	5,572	-4.8
Total	3,851	3,851	0.0	22,199	22,822	2.8
Total transfer payments	11,514	11,466	-0.4	112,531	118,435	5.2
Other program expenses						
Crown corporation expenses						
Canadian Broadcasting Corporation	0	0	n/a	1,098	1,114	1.5
Canada Mortgage and Housing Corporation	176	181	2.8	2,033	2,073	2.0
Other	333	285	-14.4	3,405	3,380	-0.7
Total	509	466	-8.4	6,536	6,567	0.5
Defence	1,633	1,456	-10.8	15,190	15,850	4.3
All other departments and agencies	4,481	4,919	9.8	40,113	42,668	6.4
Total other program expenses	6,623	6,841	3.3	61,839	65,085	5.2
Total program expenses	18,137	18,307	0.9	174,370	183,520	5.2
Public debt charges	3,005	2,811	-6.5	33,722	33,841	0.4
Total budgetary expenses	21,142	21,118	-0.1	208,092	217,361	4.5

Note: Totals may not add due to rounding.

Table 4

The budgetary balance and financial source/requirement

	March		April to March	
	2006	2007	2005–06	2006–07
	($ millions)			
Budgetary balance (deficit/surplus)	-1,011	-445	11,975	13,675
Non-budgetary transactions				
Capital investing activities	-675	-766	-2,783	-2,962
Other investing activities	-265	-169	-2,920	-1,145
Pension and other accounts	534	376	171	4,684
Other activities				
Accounts payable, receivables, accruals and allowances	3,989	6,103	-3,304	-3,236
Foreign exchange activities	-1,566	-3,048	1,045	-3,352
Amortization of tangible capital assets	221	156	2,969	2,949
Total other activities	2,644	3,211	710	-3,639
Total non-budgetary transactions	2,238	2,652	-4,822	-3,062
Net financial source/requirement	1,227	2,207	7,153	10,613

Note: Totals may not add due to rounding.

Table 5

Financial source/requirement and net financing activities

	March		April to March	
	2006	2007	2005–06	2006–07
	($ millions)			
Net financial source/requirement	1,227	2,207	7,153	10,613
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	674	308	-4,852	-3,913
Treasury bills	11,700	10,100	4,400	2,500
Canada Savings Bonds	-123	-176	-1,732	-2,259
Other	-67	-187	-290	-1,360
Total	12,184	10,045	-2,474	-5,032
Foreign currency borrowings	1,718	6	-2,202	-3,712
Total	13,902	10,051	-4,676	-8,744
Cross-currency swap revaluation	-1,265	-306	-1,336	1,168
Unamortized discounts on debt issues	30	167	-369	121
Obligations related to capital leases	-15	172	50	94
Net change in financing activities	12,652	10,084	-6,331	-7,361
Change in cash balance	13,879	12,291	822	3,252

Note: Totals may not add due to rounding.

Table 6

Condensed statement of assets and liabilities

	March 31, 2006	March 31, 2007	Change
		($ millions)	
Liabilities			
Accounts payable, accruals and allowances	101,432	98,729	-2,703
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	261,134	257,221	-3,913
Treasury bills	131,597	134,097	2,500
Canada Savings Bonds	17,342	15,083	-2,259
Other	3,102	1,742	-1,360
Subtotal	413,175	408,143	-5,032
Payable in foreign currencies	14,085	10,373	-3,712
Cross-currency swap revaluation account	-2,258	-1,090	1,168
Unamortized discounts and premiums on market debt	-6,780	-6,659	121
Obligations related to capital leases	2,927	3,021	94
Total unmatured debt	421,149	413,788	-7,361
Pension and other accounts			
Public sector pensions	131,062	134,446	3,384
Other employee and veteran future benefits	43,369	44,989	1,620
Other pension and other accounts	5,493	5,173	-320
Total pension and other accounts	179,924	184,608	4,684
Total interest-bearing debt	601,073	598,396	-2,677
Total liabilities	702,505	697,125	-5,380
Financial assets			
Cash and accounts receivable	82,843	86,628	3,785
Foreign exchange accounts	40,827	44,179	3,352
Loans, investments and advances (net of allowances)	41,889	43,034	1,145
Total financial assets	165,559	173,841	8,282
Net debt	536,946	523,284	-13,662
Non-financial assets	55,447	55,460	13
Federal debt (accumulated deficit)	481,499	467,824	-13,675

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